



Investment Office

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April 14, 2006

AGENDA ITEM 7a

TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

- I. SUBJECT: Investment Office Policy Review Project**
- II. PROGRAM: Total Fund**
- III. RECOMMENDATION: Information**
- IV. ANALYSIS:**

BACKGROUND:

Over the years, the CalPERS Investment Committee has established policy for the governance, administration, and execution of responsibilities directed at achieving the goals and objectives of the Investment Program. The Committee has set policy for the Investment Office as an enterprise as well as for each of the asset classes. The Committee sets policy for the Investment Office through actions taken by the Policy Subcommittee as well as by actions of the full Committee.

In addition, delegations of authority from the Committee to the Chief Investment Officer and the Senior Investment Officers have also been put in place. Currently, delegations may be found within formal delegation resolutions, as well as within policy and sometimes in the Committee meeting minutes.

The Investment Committee has committed itself to assuring that CalPERS actions are in compliance with policy. In addition, the Committee has committed itself to assuring that its policies are in compliance with current law and regulations. These commitments have been acknowledged with the establishment of a formal enterprise-wide compliance function, including a compliance officer position assigned to the Investment Office.

The Investment Committee policies were last reviewed in 2000. Given the Committee's emphasis on sound policy and compliance, and based on a review of the existing policies, staff has – as indicated in its annual plan for this year – embarked upon a comprehensive project to review, update, and improve upon the existing body of investment policy.

PROJECT OBJECTIVES

The objectives of this project are to achieve a more streamlined, consistent and referable policy and delegation framework for the CalPERS Investment Program by:

1. Identifying, clarifying, and centralizing all delegations;
2. Providing a logical overarching framework for the body of policy;
3. Eliminating redundancies and inconsistencies; and
4. Consolidating and streamlining policies.

In addition, the new policy framework will facilitate the following:

1. Ensuring ties between Investment Office objectives and policy;
2. Ensuring ties between performance measurement/reporting and policy; and
3. Monitoring compliance.

PROJECT APPROACH

It is estimated that the project will take 18 months to complete. We have broken the project into four separate phases. Within each phase, delegations of authority are treated separately from investment policy generally.

Phase I – Discovery

During the Discovery phase, all policies and delegations of authority will be inventoried and sourced. We will identify overarching program-wide policies, as well as those specific to single asset classes. Delegations will also be categorized by subject; for example, general delegations to the CIO or by asset class.

Phase II – Analysis

In the Analysis phase, we will fully analyze existing delegations and policy to identify gaps brought to light through the inventory. We will also identify redundancies, inconsistencies, and conflicts. This phase will also provide us with the opportunity to evaluate delegations and policy consistency with current law and regulation, as well as actual practice. Lastly, we will suggest possible remediation strategies and actions.

Phase III – Implementation

During this phase, remedial steps will be proposed to the Policy Subcommittee and Investment Committee for action and decision.

Phase IV – Compliance

The compliance phase of the project is actually ongoing and represents the continuing commitment of the Committee to policy compliance. The new policy framework will facilitate the success of our compliance efforts.

RESOURCES / STAFFING

In addition to Investment Office staff, this Project will utilize the resources of Wilshire Associates, Inc., as well as Pension Consulting Alliance, Inc. for private equity and real estate matters. The Assistant Executive Officer-Investments will oversee the project. A consultant from The Results Group will serve as Project Manager.

TIMELINE

Attachment 1 is a high-level timeframe for the various phases of the Project. A more detailed timeline will be developed as needed.

Unless directed otherwise, staff will be prepared, in July 2006, to present the Committee with the results of the Discovery and Analysis phases of the Delegations portion of the Project.

V. STRATEGIC PLAN:

This item supports Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions; Goal IX, Achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

Upon conclusion of the Project, the Investment Committee will have a policy framework that is clear, consistent, and accessible. This will allow Investment Office staff to operate within a transparent and clearly stated delegation of authority with defined reporting and accountability to the Committee. The results of this Project will serve as a foundation for future Committee delegations and policy decisions.

This Project will require substantial staff and consultant resources. Wilshire and PCA consultant services for this project fall within the scope of existing contracts. The cost for the services to be provided by The Results Group will be absorbed within the existing budget.

Anne Stausboll
Interim Chief Investment Officer

Investment Office Policy Review Project Phases and Timeline

PROJECT PHASES	April	2006 June	August	2007 January	July
Phase I - Discovery					
DELEGATIONS					
Source and Inventory Delegations					
Identify Delegations By Subject					
Document Reporting Requirements					
POLICY					
Source and Inventory of Policies					
Identify Policy Unique to AssetClass					
Identify Investment Program-wide Policy					
Phase II - Analysis					
DELEGATIONS					
Identify Delgation Inconsistencies or Conflicts					
Identify Consolidation Opportunities					
Evaluate Adequacy and Completeness					
Document Practice/Delegation Gaps					
Determine Practice Gap Remediation Strategy					
POLICY					
Gap Identification					
Identify Policy Redundancies					
Identify Consolidation Opportunities					
Evaluate Policy Against Practice					
Determine Gap Remediation Strategy					
Evaluate Consistency With Current Law					
Phase III - Implementation					
DELEGATIONS					
Propose Remedial Action					
Seek Committee Approval					
POLICY					
Propose Remedial Action					
Seek Committee Approval					
Phase IV Compliance					
On-Going					